

**Kabupaten Pasir
International Resource Cities Diagnostic
March 19-20, 2001**



Submitted by

Jon Bormet, Director, Resource Cities Program

USAID Cooperative Agreement

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Summary

Pasir County, Indonesia is a rural, isolated area in the province of East Kalimantan. Their economy-- and the financial health of the County— is based on their incredible natural resources, including mining and palm oil.

Prior to decentralization, there was not much role for the County when dealing with these industries. But now, with their mutual financial health so interconnected, it is critical that a working relationship be established. In effect, Pasir County is a “company town” with all of the positives and negatives this entails. There are two areas of critical importance to the County and the companies. First, they must come to grips with the local indigenous population which is isolated and probably feel that their way of life is under attack by the “progress” the local companies represent. Neither the County nor the companies have developed a plan for shaping their relationship with the indigenous community—for now they remain frustrated by the idea that the indigenous population doesn’t seem receptive to their pleas to integrate them into the local economy and be “like us.”

At the same time, the County must find a role in the monitoring and protection of the environment. Indeed, much of the ill-will seems to be centered on the environmental degradation caused by the mining. The County has traditionally not had much of a role to play, but with decentralization this may be changing. Regardless, the local community looks to the county to protect their interests—and their environment.

Finally, the county has virtually no communications with the outside world. A strategy must be developed that allows them to communicate with the outside world—and with each other.

The good news is that the County recognizes the challenges it faces, and appears anxious to deal with them. Further, the County has financial resources that are generated from the mining. They need a US partner who has experience dealing cooperatively with a large industry (preferably in natural resources), so that an active and productive role for the County may be determined.

The Resource Cities Project

Pasir County has previously signed a Memorandum of Understanding indicating their interest in participating in the Building Institutions for Good Governance (BIGG) program. Specifically they agreed to participate in the International Resource Cities component of BIGG. Given this commitment, a municipal diagnostic was required to:

- Define the conditions of the Kabupaten Pasir; conditions that will influence the effectiveness of the exchange.
- Provide a profile of the Regency that can be used to select the most appropriate US partner.
- Identify the appropriate type of technical assistance or resources that should be exchanged in the partnership.
- Establish a framework for the Partner's technical exchange work plan.

On March 19 and 20, Jon Bormet, Director, Resource Cities Program, and Endi Rukmo, Chief of Party for the Successful Local Government Support and Partnership program of BIGG met with members of the Regency DPRD and representatives of the executive and administrative staff of the local government.

This report provides an overview of the meetings and findings of the diagnostic trip as well as an analysis of the findings as they relate to meeting the objectives of the regency—economic development/diversification, environmental protection and mitigation (mining), and integration of the indigenous population into the community. Further the diagnostic report offers a list of potential technical approaches that the partners may want to pursue. The report is divided in to four sections; Section 1) background; Section 2) summary of the meetings conducted; Section 3) analysis of diagnostic findings; and Section 4) recommendations on scope of technical exchange for the partnership.

1 Background

Kabupaten Pasir (Pasir County) is a remote, isolated county in the Province of East Alimantal. The county entails an area of about 5,800 square miles (15,000 square kilometers), or roughly an area a bit larger than the state of Connecticut. Its 250,000 people (a density of about 43 people per square mile) are divided between 12 Districts, which include 132 villages. Many of the villages are accessible only by river.



Figure 1 Downtown Tanah Grogot is lined with small shops and kiosks.

The County seat is the Township of Tanah Grogot, a community of about 20,000 people located 4-6 hours from Balikpapan, depending on the wait for the ferry. It is at least a 3-4 hour trip by car over bad country roads once you get off the ferry outside of Balikpapan.

Pasir County employs about 6,000 people, of which 2,500 are teachers. The remaining 3,500 are split between the 19 departments (Dinas), three boards, and two offices. There is a small difference between a “department” and an “office”, as all are staffed by paid, not volunteer, personnel. All Districts have offices of varying sizes, depending on the size of the District, and some villages may have offices as well. Since there are few telephones, and many of the communities are very isolated, the offices communicate using what is effectively a CB radio.

2 Summary Of Meetings

2a Assistant #3 (to the City Secretary) and Finance Director

In addition to the information noted above, the Assistant to the Secretary and the Finance Director offered additional information about the structure of Pasir County, including:

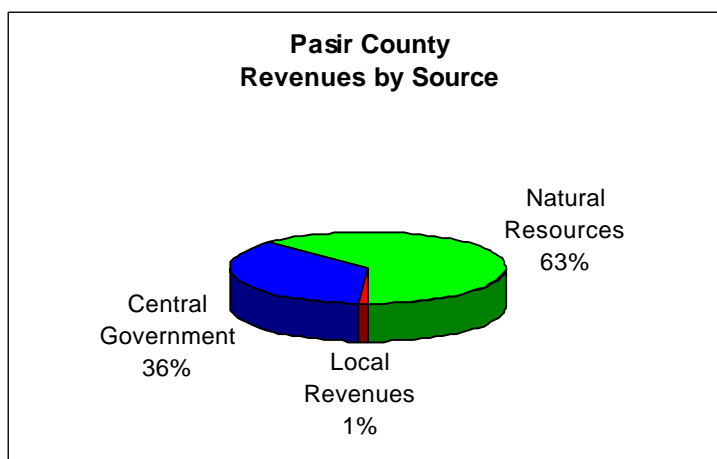
- The Secretary is the Chief Administrative officer and is appointed for a 5-year term. Like many counties in the US, the Secretary (County Manager) is primarily in charge of administration, while the Department Heads are in charge of individual departments. The department heads are recommended to the Bupati (in effect the Mayor, or elected head of the County) by the Secretary, who can accept or reject the recommendation.
- There are 45 elected County Council members, and 30 people report directly to the County Secretary.
- The community of Tanah Grogot is a Township. The Bupati appoints the primary officials in each Township. The Township structure reflects the county's structure.
- Districts are effectively neighborhoods—the County coordinates with them, but their role is primarily advisory.



Figure 2 Assistant #3 to the Secretary, ICMA's Endi Rukmo, and the Finance Director

- The Routine (Operating) budget is about 40% of their expenses, and the Development (Capital) budget accounts for the other 60% of their expenditures.

- Incredibly, only about 1% of all revenues come from local sources. The Central Government, accounts for 36% of revenues, and the revenue sharing of the Natural Resources income accounts for 63% of their budget.



According to the Assistant, the following areas for cooperation interest the County:

- **Diversification of the local economy**, which currently depends greatly on palm oil and the mining of natural resources.
- **Diversification and increasing the local tax base**, which depends primarily on a property tax.
- **Establishing a rate base for water**. Only about 20% of the county receives water through a water distribution system, though this jumps to 80% within the townships.
- **Natural Resource fees**. They are uncertain of the amount of money they are actually entitled to from the mining companies, as it goes through the national government first and is then re-distributed to them. There is the suspicion that they may not be getting their share.
- **Land Reclamation**. The County controls the mining/land reclamation, while the Province controls mining, so there is a disconnect in the coordination.
- **Environmental Protection**. The mines sometimes have a very negative impact to the surrounding environment.
- **Job Programs**. They would like to see the mines hire more local people for skilled positions, rather than importing the workers.

2b Council President—H.M. Markikansyah

The Council President had a much different feel for the city, and frankly discussed the challenges facing the County. He is a member of the indigenous population, which makes up only about 30% of the local population. He is frustrated that the indigenous population is very reluctant to integrate with the immigrants, and he feels that education in the local schools is a long-term key to bringing the indigenous population into the main stream. There is compulsory education in Indonesia through grade 9, but from looking around the streets it is

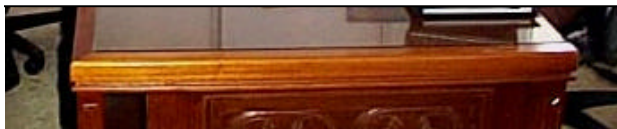
apparent that the law is not enforced. He noted that there are a number of barriers to school attendance for the indigenous population, including the need for children to help with the family business, the cost of the school, the isolation of the villages, many of which are accessible only by water, and the fact that no transportation is available.

Mr. Markikansyah advocates a massive public education campaign among all the population, but especially to the indigenous people, regarding the importance of education. Only by enhancing school attendance does he believe that progress can be made.

Mr. Markikansyah spoke at length about the tension between the indigenous population and the new people resulting from transmigration. The new immigrants have a much higher standard of living than the indigenous population, and that breeds discontent. On one side, the indigenous population is very reluctant to participate in the local economy, preferring to maintain their own life style. On the other hand, the indigenous people become offended by the successful newcomers.



Figure 3 ICMA's Endi Rukmo with Council President



The indigenous population is also threatened by the encroachment into the forests, either for settlements or for mining of coal and other natural resources. The Council President says that the indigenous community suffers from the degradation of the environment from the mines, but does not receive any benefits from the mines. The problems presented by the indigenous population are very complicated, and there is no apparent answer. Mr. Markikansyah noted that the government tried to do good by installing sewers and providing toilets in poorer areas, only to find that the people wouldn't use them because they were too beautiful.

There is also a major effort by the local community to be independent of the palm oil plantations. Instead of working on the plantations, they prefer to own a small plot of land and sell palm oil to the company. Whether they work for the company directly, or have their own land and sell the oil, it is clear that these people are going to be impoverished.

Using typical methods for economic development can also backfire. For instance, the county built a road to link an isolated area of the county, and to provide some development potential. As a result, the indigenous population felt threatened, and the road provided access to those who steal timber from the forests.

This vexing problem, when not treated, can have disastrous results, as in Central Kalimantan. The only partial answer suggested by the Council President was to improve transportation for school children who may be willing to go to school if they had access.

2c BAPPEDA (Master Plan Board)

BAPPEDA has been and continues to be major division in local governments of Indonesia. Under the “New Order” regime of Soeharto, the decisions about development projects came from the National Master Plan (BAPPENAS), and were executed at the local level. Now BAPPEDA is responsible for analyzing and recommending which development projects are included in the annual budget, independent of the central government.

The BAPPEDA is probably most closely related to a US city Office of Management and Budget. Only they are far more powerful, and given much deference. There are 45 fulltime member of the BAPPEDA staff, with their primary role being the preparation of the Capital Budget, and subsequent monitoring of expenses (though they do not provide a full audit function).

In part because they are considered “experts,” and in part because there is no tradition, there is precious little public participation in the budgeting process. The Districts can request capital projects, but once requested the process moves along without them. The BAPPEDA decides priorities, and recommends to the Council what should, and should not, be built.

In light of the discussion with the Council President, the lack of public involvement and transparency becomes even more glaring. For instance, the Japanese investment banks provided money through the central government for four capital projects in the county. They are building roads, bridges, and river ports, all of which they hope will provide access to the community and jobs for the population. Whether or not the community to be served actually wanted that access—or might have preferred to be left alone—is not a subject that was even considered. Nor was the possibility of massing the money in one area, to provide the benefits of a major project in the County. Instead, the money was designated by the Mayor, as recommended the BAPPEDA.

The BAPPEDA offered the following areas as their priorities:

- Agriculture Development and Irrigation
- Economic Development/Job Training
- Opening New Land for Settlements
- Developing new businesses
- Coal Mining

2d *Technology Department*

The Technology Department in Pasir County exists in name only. It is one of the few Technology Departments that does not have a telephone, and works with manual typewriters. That said, it is notable for one fact: it has two satellite dishes that appear to be video capable. This provides a great opportunity to offer ongoing training to the County, which simply would not be available through any other means.

2e *Coal Mine*

In speaking with the management of one of the local coalmines, it is apparent that they are frustrated with the situation with the local community, which has included demonstrations and protests that close the mine from time to time. They say that they provide money to the local community to build schools and other community facilities, and that they also have offered a full job training program for the citizens. These efforts have been rejected, and virtually no one is enrolled in the job-training program. Instead, from the perspective of the coal company, the local community doesn't want community improvements, but instead just wants to blackmail the company into providing individual subsidies to community members as a matter of right. It was clear that the local representative of Pasir County generally agreed with this view. Additionally, the coalmine representative said that they were more inclined to donate money to the local government because then it could go through a priority setting process rather than donating directly to the community.

3 *Analysis Of Diagnostic Findings*

For purposes of analysis, ICMA / USAID developed a four point structure by which to determine the most useful technical information for each of the local government units in Indonesia as they implement Laws 22 and 25. The four points are:

1. Organizational capacity
2. Transparent budget and financial systems and practices
3. Efficient delivery of services
4. Effective citizen participation

The analysis of the information that follows is organized around these four points.

3a *Organizational Capacity*

Pasir County has tremendous obstacles to overcome if they are to function as one government. Right now, communications between the offices seems to be the largest barrier, for it is hard to imagine operating what is effectively a statewide organization with no telephones, no computers, and no faxes. That said, many of the individuals seem to be very bright and engaged, and prepared to assume additional responsibilities.

3b *Transparent Budget And Financial Systems And Practices*

Pasir Kabupaten stands to gain revenues under the new fiscal balance law (Law 25/1999) and subsequent Presidential Decrees. Certainly, the County appears to have the human resources to manage these new revenues and responsibilities.



Figure 4 Main Building of the Pasir County Complex

Balancing these demands is a universal issue; incorporating the budget and finance training into the work of the partnership will contribute greatly to achieve equitable distribution of financial resources. Pasir County finance and budgeting challenges are:

- Developing a long – term revenue and expenditure plan that provides for fiscal sustainability when GOI transfers diminish.
- Developing revenue-generating schemes that can be tied to and demonstrate performance or change in a particular service area.
- Computerization of the department

3c *Efficient Service Delivery*

Pasir County is probably no different than many other governments in Indonesia. There is little work ethic, and it is rare to see an office employee doing anything other than smoking a cigarette or reading a paper. The enormous transformation of the work force into hard-working civil servants will require assistance in developing supervisory practices, maintaining performance reports, and monitoring staff performance. This is further complicated by the extraordinary distribution of the work force around the county.

3d *Effective Citizen Participation*

There is little real citizen participation, though the districts and townships offer the opportunity for input at a grassroots level. This will be critical to exploit, for the distances involved will preclude the participation of most citizens directly at County meetings.

4 Recommendations For The Partnership Exchange

4a *Potential for working on Environment/Public Private Partnership/Community Outreach*

The lifeblood of Pasir County is its Natural Resources. For many residents, it can provide good paying jobs, and for the government itself an overwhelming proportions of its available revenues come from mining. It is also its biggest threat, as the potential for environmental degradation exists, and it appears to be the focus of intense pressure brought by the local community. Thus, it seems

appropriate to address the relationship between Pasir County and the Mining/other natural resource companies.

4b Recommended Approaches For IRCP with Kabupaten Pasir

Based on the meetings with the staff and head of Council, and a representative of one of the local mines, there are several different aspects of effective local government practices that could be considered through the partnership.

- Government/Industry Cooperation: In speaking with the mine representative and the head of the council, they echoed the same general sentiments. Each shares the belief that they wish to engage the local residents, especially the (mostly) indigenous community. Each expresses a frustration over the inability to craft a real program to benefit the local community. And each is at risk, for failure to address the problems could lead to a social breakdown that would threaten each entity.

US local governments, especially in rural areas, have shared many of the same problems in “company towns”, which dominate the local community financially, but are also looked upon with suspicion. How to craft a partnership between the two entities (including possibly working with the existing NGO’s, or even forming new NGO’s), is an area that should be explored.

- Environmental Protection: How the environment is protected is a major concern of Pasir County. It is uncertain at this time whether this is (or will be) a responsibility of the local government, but it is certain that the impacts of environmental degradation will most affect the local community. Thus, there is a necessary role to play for Pasir County. It also raises a difficult balancing act for the local government—on one hand they must cooperate with the mining companies to address the needs of the local community, but at the same time they must enforce environmental regulations which puts them a potentially adversarial role with the mining companies. Further, an engaged local government is not something the local companies have experienced before, and they may be reluctant to embrace the concept. This is a concept which many local governments and companies in the US have worked with, and they may provide a roadmap to building a relationship based on mutual respect.
- Communications: If Pasir County is to meet the future challenges that face them, they must overcome the current lack of communication. The ability to phone and fax the district offices is essential for the distribution of information. Some computer and email capabilities would be a great addition. The technology that exists in the presence of the satellite dishes should be reviewed, as should other strategies that might help them skip the “hard-wire” generation of communications and move to a wireless system. In developing these ideas, special attention should be given to

how the County can communicate with its citizens as well, for currently they are spread out and detached from the community. Luckily, because of the mining and natural resource companies, the County has the financial resources that might allow them to address these issues.